

TWO SECRETS OF THE RED BILLIONS

From January 28 to February 1, 1944, the Supreme Council of the USSR, the highest executive organ of the Bolshevik empire, met for its tenth session. A sensation was caused in the world press by the fact that the Council decided in this session to make additions to paragraphs 14 and 18 of the Soviet Constitution according to which the 16 republics of the Soviet Union were to receive their own People's Commissariats for National Defense and Foreign Affairs. But very little attention was paid to another point on the agenda: the acceptance of the national budget for the year 1944. The following analysis of the new budget is based on printed Soviet material corresponding to about 125 pages of this magazine. It provides extremely revealing information on the financial position of the Soviet Government and permits insight into two secrets of the Soviet state.

ACCORDING to the proposal of A. G. Zverev, the People's Commissar of Finance in the USSR, the budget estimates for 1944 were passed at 245,566 billion rubles of revenue and expenditure each. The main items of the budget for 1944 are as follows:

number of years—they rose by less than 100 per cent, although they included years of war in which budgets usually rise out of all proportion. A comparison with the US budgets of recent years shows this difference very clearly.

How is it to be explained that the national expenditures of the USSR of

Chief Items of the Soviet Budget for 1944

(in billion rubles)

Revenue		Expenditure	
1. Accumulation from government enterprises and organizations:		1. Financing the war	128.4
(a) tax on turnover	80.2	2. Financing national economy	44.7
(b) returns from profits made by government enterprises and organizations	23.0	including	
2. From the people:		(a) for rehabilitation of reconquered areas	16.0
(a) taxes	34.3	(b) new capital investment	20.8
(b) voluntary loans	30.3	3. Financing social-cultural measures	51.4
		4. Administrative expenditure	6.7

For comparison we have listed some of the budgets of the last fifteen years:

The Soviet Budgets 1929-1944

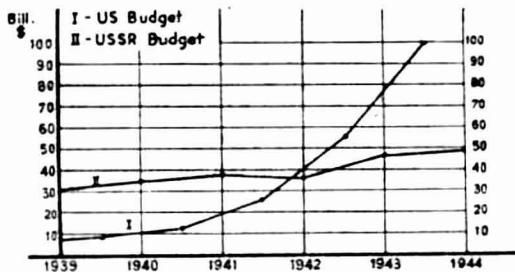
Years	Billion Rubles	Increase in per cent
1929/30	10.5	
1932	27.5	
1933	35.0	plus 27
1938	124.0 (expenditure)	„ 254
1939	153.1	„ 20
1940	174.3	„ 14
1941	191.3 (estimate: 216)	„ 10
1942	182.8	minus 5
1943	231.9 (estimate)	plus 27
1944	245.6	„ 6

The first thing that strikes us in this list is that from 1932 to 1938 the budgets of the USSR increased by about 350 per cent, while from 1938 to 1944—the same

the last few years by no means reflect the fact that this state has been conducting a life-and-death war since 1941! Indeed, how can we explain that the increase in national expenditure was less in war time than in years of peace?

To be sure, the Soviet Union lost large parts of its territory, among them some of the richest and most important from an economic point of view, at the very beginning of the war. But it is well known what exceptional and costly measures the Bolsheviks undertook to neutralize this terrible blow to their economy. By means of a speeded-up economic development of the Ural region, of Central Asia

and Siberia, and by transferring entire factories and plants from the Ukraine and Central Russia to these areas, they tried to make up for their losses. It is also known that the whole population of the country which had not been called up for war service, including women, adolescents, and children, has been mobilized for work to raise production and increase the revenue of the state.



Comparison of the national budgets of the USSR and the USA (in USA \$)

The figures for the Soviet budgets are taken from official Soviet announcements, those for the USA budgets from American press dispatches. There has been much dispute over the value of the ruble in comparison to other currencies. We have taken the official rate of about 5 rubles to USA \$1, although in reality the ruble is worth far less. The budget year of the USSR follows the calendar year; that of the USA runs from July 1 to June 30.

Thus the loss of territory alone does not explain the unparalleled low level at which expenditures in the national budget have been kept.

THE FIRST RIDDLE SOLVED

An explanation can only be obtained if we regard the financial policy of the Soviet Union as a whole and realize that the Soviet budgets do not represent normal national budgets, just as the Soviet state is not a normal state. The Soviet state is not a "nightwatchman" in the sense in which traditional economic science regarded the state, whose only task it is to safeguard the life and economic activities of its people. On the contrary, the Soviet state is the owner of almost all economic enterprises, and its organs determine the type and manner of the economic activity of all its subjects. The state is the sole owner and general manager of all industrial enterprises, the sole merchant, and the most important landowner. The development of eco-

nomic life, the type of goods produced, the accumulation of capital, the employment of the national income and, to a large extent, the employment of the savings of its individual citizens, are determined by the Soviet state.

This explains the vast increase in the national budgets of the USSR which was so characteristic of the years preceding the war and which found its expression in the Five Year Plans.

Consequently, the budget of the Soviet Union contains not only the income and expenditure of normal state activity but also the net income of all industrial, agricultural, and commercial enterprises and the greater part of all savings. Since the Soviet Government inherited very rich and largely undeveloped lands from Tsarist Russia, it was possible by these means and by completely neglecting the economic requirements of the people to bring about a huge increase in production and budget. In this way, even long before the war, the national budgets of the USSR represented the maximum mobilization of the population's means and the highest possible economic development of the country at any given moment.

On the other hand, however, and for the same reason, the readjustment of Soviet economy from a peace-time to a war-time basis could not show any great success. While other belligerent states could fall back on immense reserves in the economy of the country and the savings of its population when turning to war production, these reserves were not available for the Bolshevik state. They had already been exploited to their utmost for years.

Long before June 22, 1941, in fact all through the years of Bolshevik rule, the internal political conditions, the economic structure, and the way of life of the people of the USSR were as if in a perpetual state of war. Nothing proves this fact more conclusively than that section of the budget of the USSR which contains military expenditure:

The Military Budget

Years	Billion Rubles
1941	70.9 (estimate)
1941	91.5 (actual expenditure)
1942	108.4 " "
1943	124.7 " "
1944	128.4 (estimate)

In other words, the actual military expenditure in the third year of all-out war was only 76 per cent higher than the peace-time estimate for 1941, and the estimate for 1944 exceeds this peace-time estimate by only 80 per cent.

In spite of a war unparalleled in violence and extent, the military expenditure of the Soviet Union has risen quite insignificantly. What is this but another proof of the fact that the Bolshevik economic and financial policy was on a war-time basis long before the war actually broke out?

LIMITATIONS OF SOVIET ECONOMY

The fact that the Soviet state was unable substantially to increase its military budget in war time reveals the limitations of the Bolshevik economic system. They are emphasized as well by the very moderate success met with by the Soviet efforts to reduce the cost of production and thereby to provide new income. Naturally, the question of cost is of utmost importance to a national economy which is bureaucratically directed and lacks the price-lowering influence of free competition. The measures of the Soviet rulers to reduce production costs are accordingly severe and multi-form. For years the Soviet press and radio have been full of the campaigns which were to reduce the costs of production by "over-fulfilling production plans," by "voluntary extension of working hours," by the employment of labor-saving devices, and by new inventions.

However, results have not corresponded to efforts. The costs of production in the government enterprises and organizations (i.e., the most important enterprises of the USSR) sank no more than 9.2 per cent in 1942 and only 5 per cent in 1943.

Moreover, these figures do not even reflect the actual situation. The costs to have sunk most are those in the war industry. The reasons for this were given by N. S. Patolichev, the delegate of the Chelyabinsk area, who made the following statement at the last session of the Supreme Council:

At the beginning of the war, when it was necessary to get the evacuated enterprises going again and to create new locations of production for the war industry, this task was carried out without consideration for cost.

In other words, no one had at first paid any attention to the cost of production in a large section of the war industry, since all that mattered was to get it going. This made a considerable reduction in costs possible, once the initial consequences of transfer or new erection were overcome. Since this rather illusory reduction is included in the total reduction quoted above, the actual decrease of costs in the entire industry has been infinitesimal. Thus no new source of state income has been opened in this field.

THE REOCCUPIED AREAS

That the financial reserves of the USSR are at present very limited is also revealed by the amounts provided for the financing of national economy in 1944 in the Soviet budget. Although the total amount of this financing (44.7 billion rubles) is larger than in 1943 (31.1 billion rubles), one must bear in mind that a large part of this amount, namely, 16 billion rubles, is intended not for the expansion of existing industries but for the general reconstruction of the national economy in the reconquered western territories of the USSR.

Consequently, these 16 billion rubles will for the time being not be of any benefit to the war economy of the Soviet Union. The productive power of this capital will not become apparent for some time, all the more so as, in comparison to the devastation of the almost entirely depopulated western territories, it is no more than a drop in the ocean. For, according to Professor E. Varga, the noted Soviet economist, the total losses of the Soviet Union as a result of the war

already amount to many hundred billions of gold rubles (*Voina i Rabochy Klass*, No. 10, 1943).

These 16 billions represent a loss to the economy in the Ural region, in Central Asia, and in Siberia, i.e., the very areas which at the present time represent the most important economic bases of the Red empire. Accordingly, the war economy will receive for its expansion in 1944, not 44.7 billion rubles of credits, but (after the deduction of 16 billions) only 28.7 billions, that is, 2.4 billion rubles less than in 1943.

STRANGE ITEM

While war expenditures rose in 1944 by only about 3 per cent in comparison to 1943, the expenditures for "financing of social-cultural measures" were increased by about 40 per cent. Even if we consider that this includes medical service, war pensions, etc., this is an amazing amount. In order properly to understand this increase, so unusual in war time, we must discuss another peculiar aspect of the Soviet state.

The more the Soviet state approaches the "ideal Communist society," the larger becomes the proportion of cultural and social requirements of its population which the state itself must satisfy. For, if that "ideal" society should become a fact and all citizens of the USSR be "true Communists," the satisfaction of their requirements would cost them nothing, just as they would not get a cent for their work. The trend toward such conditions has been considerably speeded up since the outbreak of the war.

In his report on the financial situation of Moscow, V. P. Pronin, the President of the Moscow Executive Committee, stated: "The proportion of taxes from the population in the budget of Moscow has been reduced from 27 per cent in 1940 to 5.5 per cent in 1943." And this at a time when the total revenue in the Moscow budget rose from 1.1 billions (1942) to 2.056 billions (1944), and when war demanded the utmost exertion of forces and means.

Indeed, are not the citizens of Moscow living in seventh heaven? All the nations of the world, even the neutral countries, must shoulder increasingly heavy tax burdens: only the inhabitants of Bolshevism's capital lead an almost tax-free existence.

But seriously: since the very first day of Bolshevik rule, the question of satisfying the social and cultural requirements of the USSR's population has been an almost insolvable problem. The object of the Soviet economic policy was, without regard to the requirements of the people, to promote the industrialization of the country as much and as rapidly as possible. As a result, the so-called "social-cultural requirements" which the state must satisfy in the Soviet Union include also such things as housing, clothing, food, etc., things which in other countries the individual citizens can naturally pay for out of their own incomes. All the world knows that the Soviet people have always had but very little of these things. The consumption-goods industry and municipal enterprises, which must provide them, were never favored by the state. As a result of the war with its devastation of wide areas and its concentration on the business of war, the situation has grown much worse. The Soviets themselves admit this. At a meeting of the Supreme Council, A. N. Kosygin, the President of the Council of People's Commissars of the Russian Republic, made the following statement:

The local Soviet organs must see to it that an end is put to the failure of the municipal enterprises to satisfy the social-cultural demands of the workers. . . . In some cities, for example, in Kuibyshev, Kazan, Saratov, Chelyabinsk, Novosibirsk [i.e., the most important cities of the Red state], the situation of the municipal enterprises has deteriorated since the outbreak of the war.

A BAD SIGN

It is the adolescents and children who are suffering most from the consequences of war. Their fathers are either at the front or dead or prisoners or in hospitals or in factories, and their mothers have also long been mobilized in one way or another. Thus the parents cannot look after the social-cultural requirements or

even the simple food requirements of their children. At the same time, however, the state must rely more than ever before on the service of these adolescents, who form a large proportion of the workers in industry and, even more so, in agriculture.

Consequently, the state must somehow look after them. Moreover, there are many indications that some of these adolescents are beginning to run wild, to show themselves to be "undisciplined"—a fact which is constantly being censured—so that, as Kosygin said, it is absolutely necessary to take immediate measures for "additional safeguarding of the schools."

Not for nothing did several speakers at the last meeting of the Supreme Council of the USSR mention new credits for increasing the number of kindergartens, day nurseries, and children's homes; and K. I. Nikitina, in her report to the Budget Commission of the Council of the Union, demanded that the greatest attention be paid to the "material safeguarding of pupils and teachers."

Thus we see that the increased amounts for "financing social-cultural measures" do not indicate an improvement in the situation of the broad masses of the Soviet population. On the contrary, they are a proof of the desperate plight of the population: although the people are compelled to hard work and long working hours, they are not able to satisfy the most primitive human requirements, either their own or those of their children, so that the state is forced in its third year of war to expend a greater amount on this than on its own economy.

THE SIXTEEN REPUBLICS

The effect the war has had on Soviet economy is the first secret revealed by a study of the Soviet budget. The second concerns the position of the individual republics within the USSR.

The budget of the USSR for 1944 and the law which grants the individual republics of the Union the right to maintain their own Commissariats for Foreign Affairs and War were passed at the same

meeting of the Supreme Council. One would obviously expect the new rights and duties of the republics to be expressed in one way or another in their budgets, since the new organs of their own foreign policies and, to an even greater extent, the organization and maintenance of their "own military formations" will require considerable added means. Since the major part of the reforms is to be carried out this year, the required means should already appear in the budgets for 1944.

Yet nothing, not one single indication of this is to be found in the budgets. Why?

The new "rights" of the republics which the Supreme Council has granted them are merely propaganda measures on paper. The budgets, on the other hand, are the financial expression not of the alleged but the real activities of these peculiar constitutional fictions which bear the name of "republic." These "republics" owe their existence not to any right of their own but solely to the will of Moscow. Their rights and duties are not determined by their own sovereignty: they are bestowed upon them.

Everything in the Soviet Union belongs to the state, but mainly to the Soviet Union, not to the individual republics. Thus the owner of all important enterprises contained in a republic is not that republic but the USSR. Indeed, even the land of each republic does not really belong to it but to the USSR.

In such circumstances it stands to reason that the finances of the individual republics are very limited. From where can a republic take its money if all important enterprises and thus all important revenue in its territory belongs not to it but to the Union? Consequently, while the budget of the USSR is balanced at 245.6 billion rubles, the total of all the budgets of the republics amounts to only 36.1 billion rubles.

"REPUBLICAN" AND "LOCAL"

The table below shows that the budgets of the individual republics are divided

into "republican" and "local" sectors. The "republican" budgets contain the income and expenditure of the republic as a whole, while the "local" sectors apply to revenues and expenditures of a local or municipal character.

The total sum of all "republican" revenues amounts to some 22 billions or about sixty per cent of the total income of all the budgets, while "republican" expenditures amount to only 11 billion rubles or about thirty per cent. On the other hand, the local organs in the republics receive only some 14 billion rubles (40 per cent of the total) from enterprises and taxes under their control, while they expend some 25 billions (70 per cent of the total expenditure).

In other words, although the "republican" organs provide 60 per cent of all the income of the republics, the local organs spend 70 per cent of the total expenditure. This means nothing less than that the economic significance of the "republican" administration is far inferior to that of the "local" organs.

Thus the republics represent only intermediate steps between the highest authority (the Union Government) and the lowest, the local administration. In fact, the activities of the republics do not go beyond those of provincial administrations.

THEIR "OWN" AMBASSADORS

The main task of the republics is to look after the requirements not of sovereign states but of a local and municipal nature. Even the granting of the new "rights" which were regarded as so sensational in the world at large has changed nothing in this respect.

Since the republican budgets contain no items of expenditure for the republican Foreign Commissariats and the maintenance of military formations, all such expenditures must be provided from the budget of the USSR. The "independent" ambassadors, ministers, and consuls of the republics, as well as all their generals, colonels, and corporals will thus receive their pay not from their republics but

State Budgets of the Republics of the USSR for 1944

(in million rubles)

	REVENUE			EXPENDITURE		
	Total	"Re- publican"	"Local"	Total	"Re- publican"	"Local"
1. Russian Sov. Fed. Soc. Republic..	24,265	12,872	11,393	24,265	6,102	18,163
2. Ukrainian Sov. Soc. Republic	3,640	3,118	521	3,640	1,617	2,023
3. White Russian Sov. Soc. Republic..	429	404	24	429	181	248
4. Azerbaidjan Sov. Soc. Republic ..	1,011	769	242	1,011	408	603
5. Georgian Sov. Soc. Republic	1,174	888	286	1,174	485	689
6. Armenian Sov. Soc. Republic	536	466	69	536	275	260
7. Turkmen Sov. Soc. Republic.....	456	358	98	456	203	253
8. Uzbek Sov. Soc. Republic.....	1,877	1,205	671	1,877	755	1,121
9. Tajik Sov. Soc. Republic	532	429	102	532	206	325
10. Kazakh Sov. Soc. Republic	1,640	1,160	479	1,640	576	1,063
11. Kirghiz Sov. Soc. Republic	487	372	114	487	203	283
12. Karelo-Finnish Sov. Soc. Republic	123	112	11	123	87	35
	36,175	22,159	14,015	36,175	11,104	25,070

The Soviets have included only twelve of the sixteen republics in their budget for this year, as four of them were outside their sphere of power. (Discrepancies in additions are explained by the fact that decimals do not appear in this table.)

from Moscow and, whether they like it or not, continue to take orders from there.

It is indicative of the sovereign disdain with which Moscow treats the intelligence of world opinion that the Soviets did not even deem it necessary to complete the comedy of the "growing independence of the republics" by announcing the inclusion of corresponding items in the republican budgets.

Nor can any increase in the authority of the republics be construed from the fact that the total amount of the republican budgets has risen in comparison to last year. 71.1 per cent of all expenditure is reserved for "financing of social-cultural measures." It is obvious that looking after day nurseries and orphanages has no immediate relation to the question of the constitutional position of a territory, especially in a state like the Soviet Union, where everything is determined by economic factors.

Nevertheless, the sums for "financing national economy" in the republics have also risen. For 1944 they amount to 5.1 billion rubles, which is 1.7 billions more than in 1943. But upon closer study one discovers the following. As a result of the reconquest of large parts of the Ukraine, the budget of the Ukrainian Soviet Republic was increased from 600 millions (1943) to 3,470 millions (1944). The White Russian Soviet Republic, which did not appear at all in the 1943 budget, received 420 million rubles for 1944; and in the Russian Soviet Republic, too, several provinces were included in the budget for 1944 which did not appear last year as they were occupied by the Germans. All this goes to show that the item "financing of national economy" does not contain a real increase.

To realize the actual economic power and importance of the republics within the Soviet Union we need only glance at the amount provided for new capital investments in 1944. The republics received a total of 1.535 billion rubles for this purpose, namely, 193 millions for agriculture, 552 millions for municipal enterprises, and 523 millions for industry. Thus, while the industries controlled by

the various republics receive only 523 million rubles for new investment, the industries controlled by the Union receive 14.645 billions, i.e., 28 times the amount.

POLITICAL BOOKKEEPING

When the Soviet Government saw itself forced—first by reason of its war preparations and later as the result of the loss of its western territories—to promote an unparalleled industrial development of its eastern regions, there was a danger that the economic advance of the Asiatic republics, especially Uzbekistan and Kazakhstan, would lead to an increase in their desire for independence. This danger the Soviets attempted to remove by means of a bookkeeping trick.

The right to exploit the mineral wealth of the country is not in the hands of the "free and independent" republics or the people living in them: it is owned exclusively by the USSR and the anonymous "Soviet people." Consequently, the vast increase in the industrial capacity of these republics during the last few years has in no way influenced either their constitutional or financial position. They have grown neither stronger nor richer; on the contrary, they are poorer today than before, as their natural wealth has been exploited at a tremendous rate for the purposes of the Union.

Of course, according to the constitution of the USSR, these republics could leave the Bolshevik Union. Theoretically, they are entitled to this step; but even to discuss this step is prohibited on pain of death.

Moreover, would it be opportune for a republic to cut its ties with the USSR? Naturally, a republic seceding from the USSR would be allowed to keep only what rightfully belongs to it. And what belongs to it? A few shoe factories, tailoring enterprises, motor busses, day nurseries, and the air over its heads, and one cannot very well live on that. Everything else, however, would remain in the hands of the USSR, for it possesses everything of value which the individual peoples may have. That is the second secret revealed by a study of the Soviet budget.